

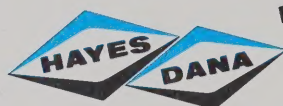


AR14

1968 ANNUAL REPORT



totally involved...



HAYES-DANA LIMITED
THOROLD, ONTARIO

The last few years have seen many changes and the Transportation and Agricultural industries with which we, as a company, are most closely associated, have been more affected than others.

Change brings both challenge and opportunity, however, and we would like you to know how Hayes-Dana is dealing with these in both North American and Overseas markets.

In preparing this report we chose the theme of "Total Involvement" because it most accurately reflects the activities and attitudes of the people who produce the Hayes-Dana products and services.

Our corporate plan for the future is flexible and adaptable, but within it certain factors remain constant, growth opportunities for our employees, a widening range of quality products for our customers and an equitable return to our shareholders.

We welcome your comments.



... IN BRITISH COLUMBIA

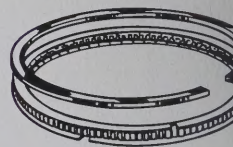
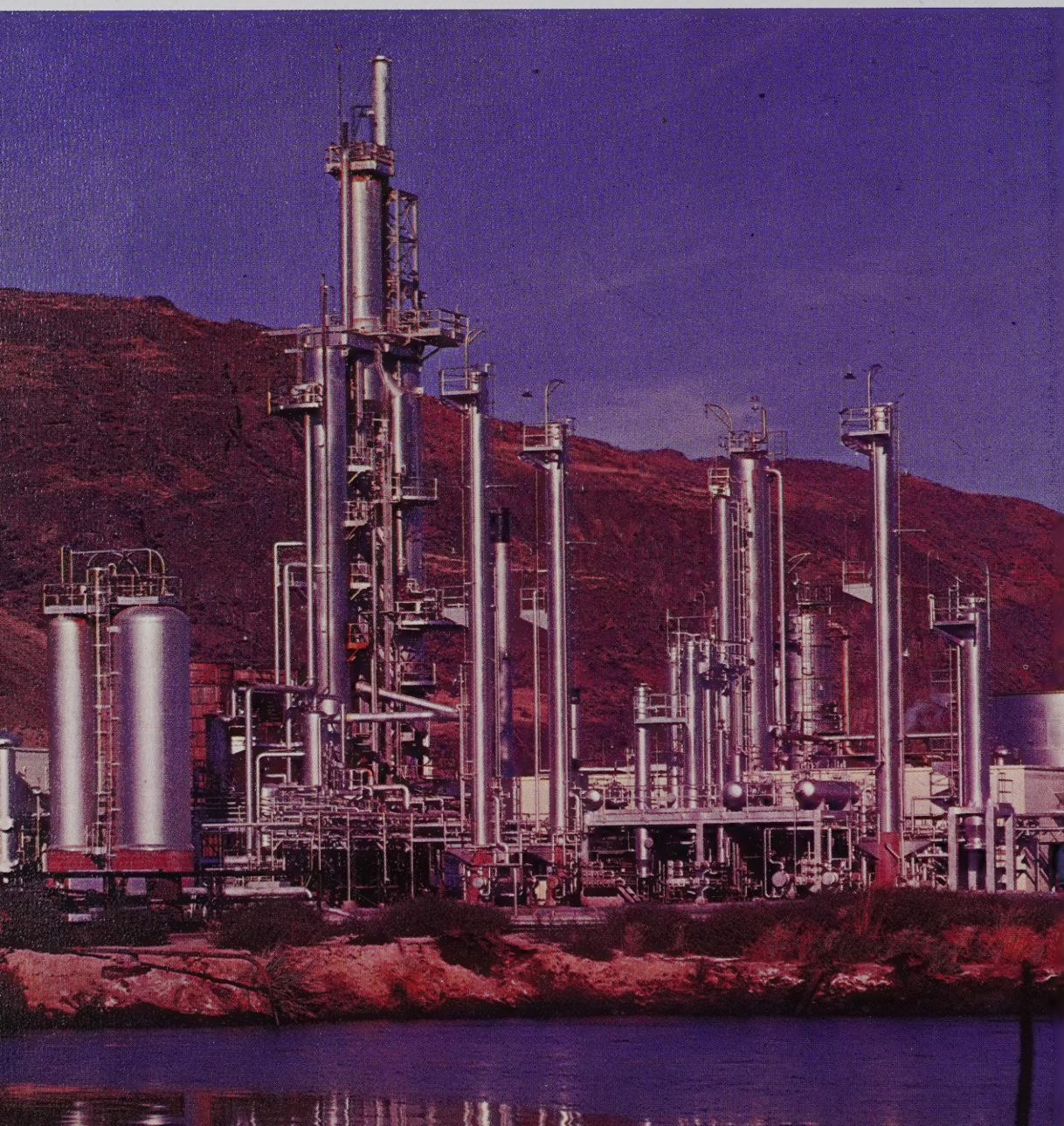
The extremes of terrain and load in the mountains and on the highways of B.C. place a tremendous burden on the design and reliability of equipment and components.

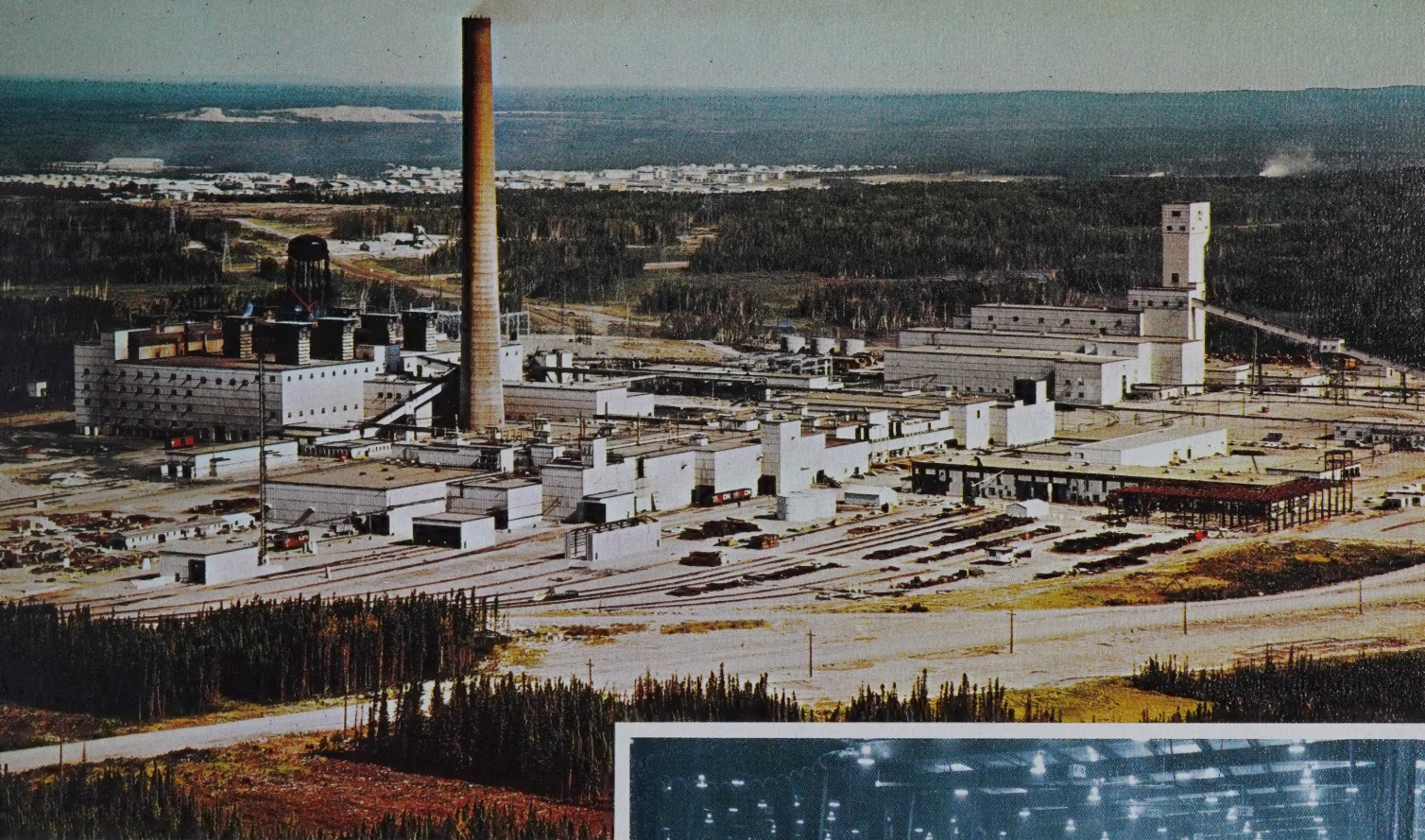
The quality of Spicer heavy duty drive shafts has become the standard of excellence for the manufacturers of this highly specialized and off-highway equipment.





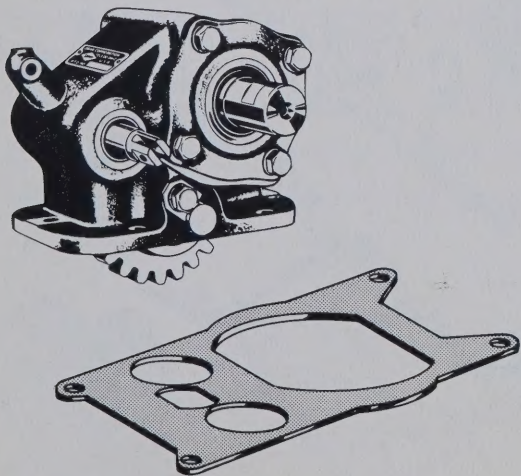
TOTALLY INVOLVED ... IN THE PRAIRIES





Victor gaskets, Perfect Circle piston rings, Ag-master P.T.O. shafts and gear boxes all are at work in a wide variety of trucks, tractors and implements, cultivating, seeding, harvesting, storing and transporting in the granary of the world.

Spicer industrial drive-shafts can be encountered almost anywhere too, oil fields, manufacturing plants -- even rotating the dining room at the top of a new hotel in Edmonton.





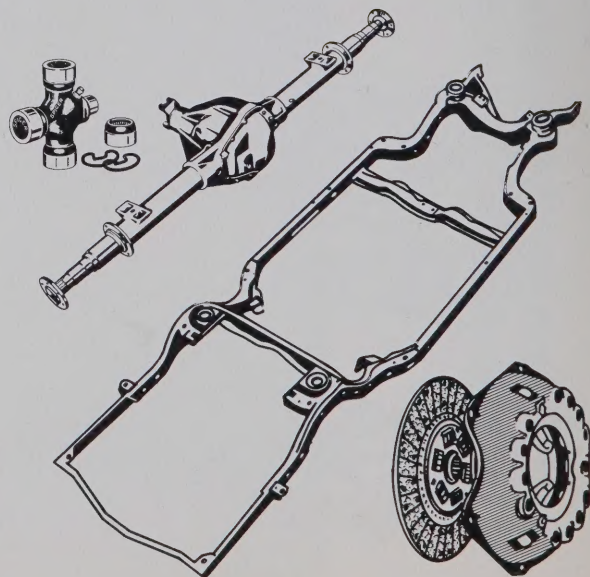
TOTALLY INVOLVED IN ONTARIO . . .

In 1902 our Spicer universal joints and drive shafts revolutionized the automotive industry and so helped create this picture.

Your own car or truck could be using our drive shaft, transmitting power from an engine relying on our piston rings and gaskets, through our clutch to our axle--the whole body supported by our frame.

The roads you drive on were created by construction machinery using some of these same products.

Wherever you travel you are near a Hayes-Dana product.

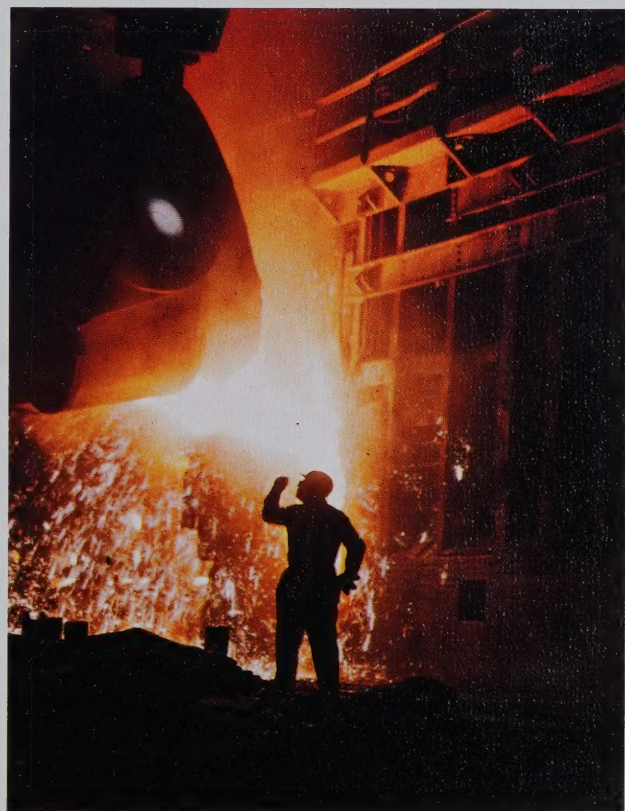
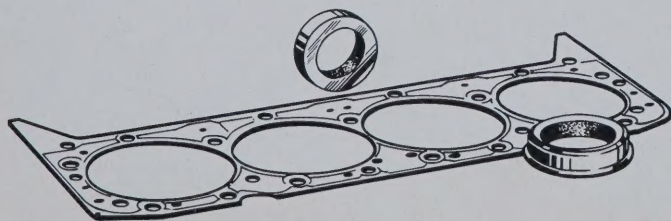




... IN QUEBEC

Mining, smelting, refining, manufacturing, transporting! Quebec is surging ahead, harvesting the great natural wealth of her land and people.

La Belle Province sets high standards; we are proud that our products serving all these industries can play some part in her great progress.

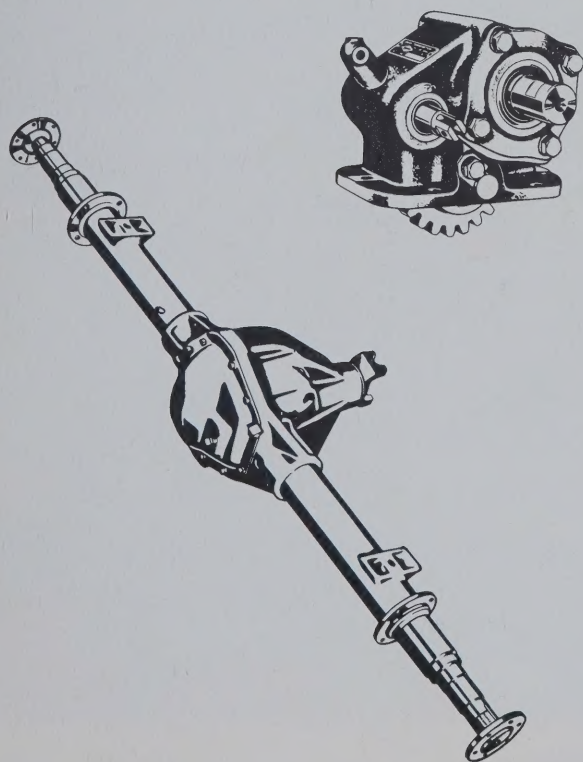




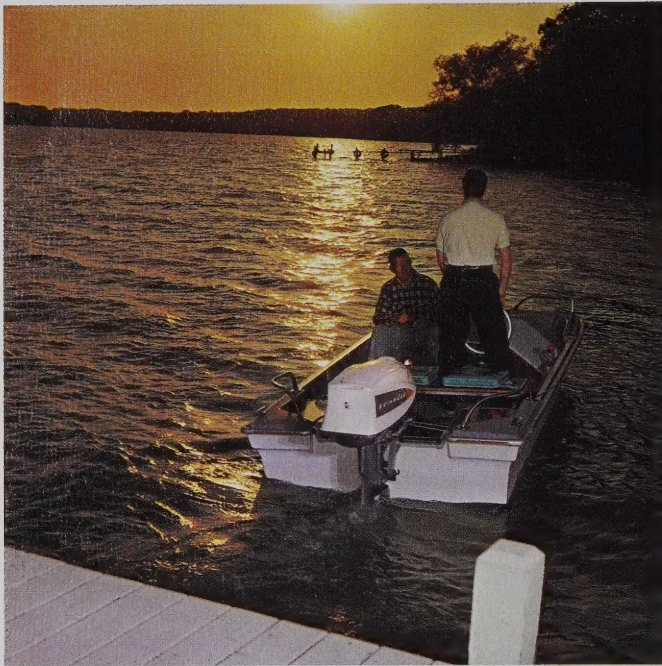
... TOTALLY INVOLVED IN THE ATLANTIC PROVINCES

The traditions and diverse skills of this family of provinces is represented in their industries: power generation, pulp, textiles, automobile manufacturing, agriculture, fishing. These and many more challenge the variety of uses for which our products are designed.

From the Pacific to the Atlantic we are totally involved in Canada and with her tremendous potential and growth.



TOTALLY INVOLVED . . . IN LEISURE



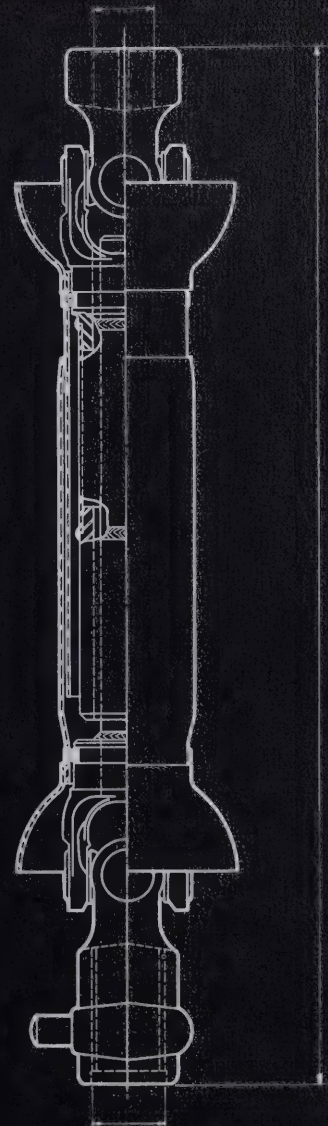
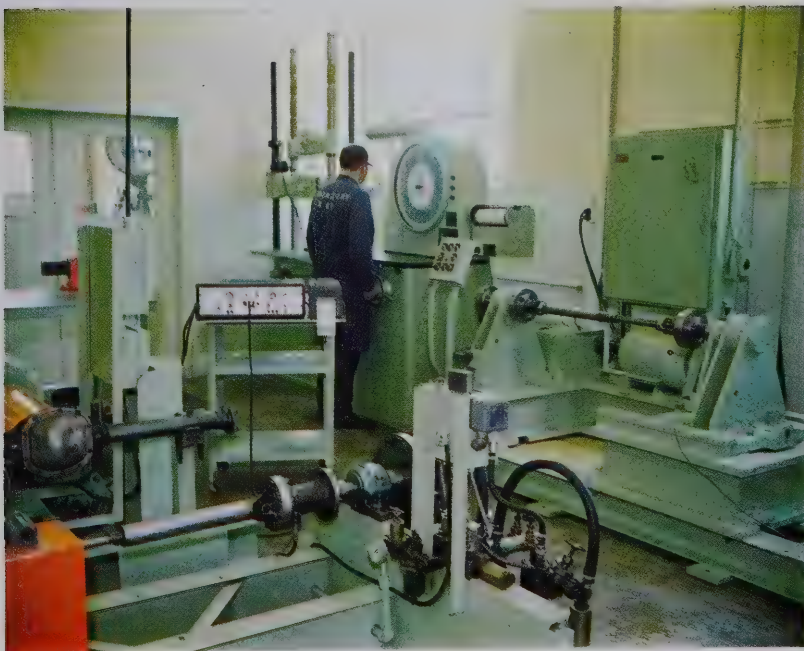
Snowmobiles employing Spicer drive shafts, for example, are used by prospectors, timber cruisers, etc. as well as for the enjoyment of the sportsman. Mini-tractors and riding mowers are also used commercially, as well as by the hobbyist.

From coast to coast you'll find products of the Hayes-Dana group of companies helping people work more efficiently and play more enjoyably.

... IN RESEARCH AND DEVELOPMENT

Hayes-Dana Research & Development Department was established as a separate engineering function in 1962. Since that time this important department has been expanded 400% and is busily involved in creating products for the transportation, agricultural and leisure industries of the future.

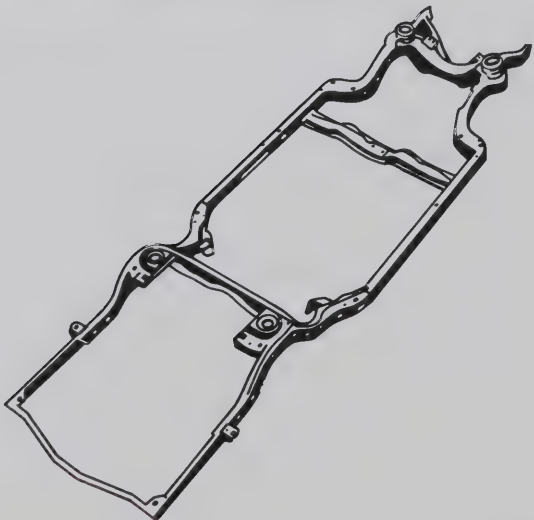
Corporate Planning at Hayes-Dana Limited combines product development with assessments of changing market potentials and is a practical investment in the continuing sound growth of our company.





TOTALLY INVOLVED . . .

. . . IN EXPORT TO THE U.S.

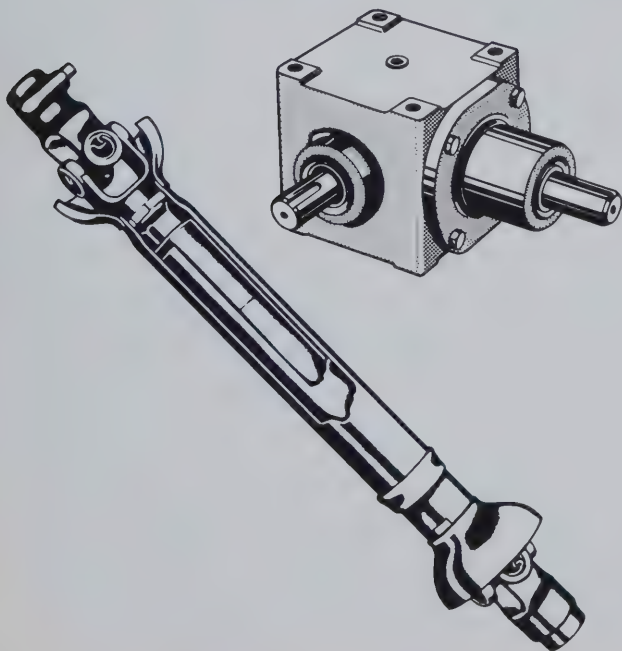
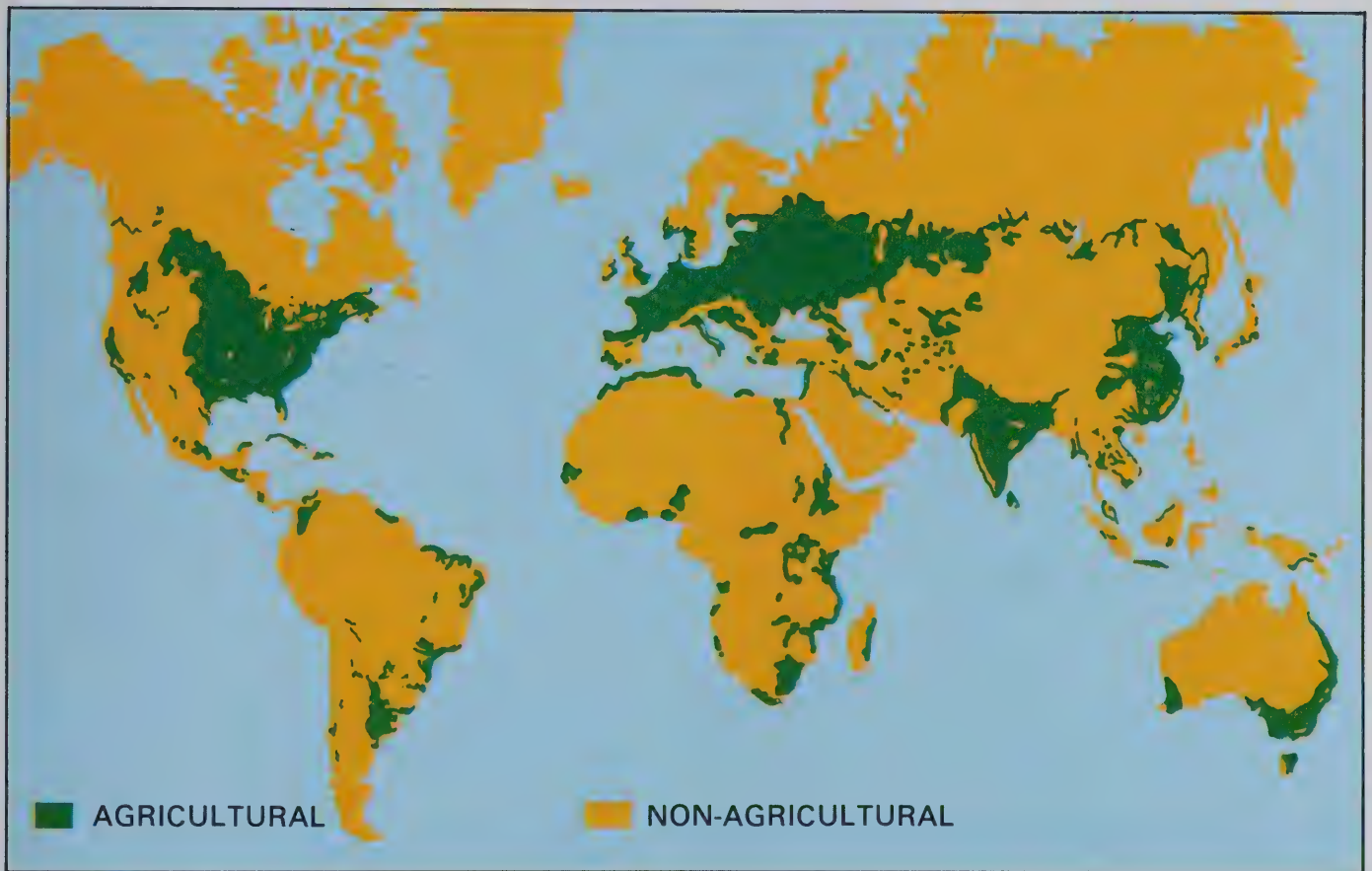


Five years before the advent of the U.S. - Canada Automotive Trade Agreement we, at Hayes-Dana, had started a program of preparation. The manufacturing of non-proprietary products was gradually discontinued and a concentrated effort placed on the modernization of our equipment, manufacturing processes and improvement in our overall efficiency.

This planned emphasis on our specialized engineered products enabled us to better meet the initial impact and challenge of the Trade Agreement.

Since then we have steadily and successfully increased our exports to the U.S. markets to the stage where they now represent one-third of our total sales volume.

... IN WORLD MARKETS



From Sweden to New Zealand our products have been accepted for their quality and reliability.

It is in the area of agricultural equipment and machinery, however, that we see the most growth for us in Foreign Markets.

The world is hungry and some way must be found to provide the starving with the equipment and technology so that they may become better equipped to feed themselves.

Our agricultural drive-shafts were developed in Canada, where we now have the majority of the market volume. It is our intention to become totally involved in world markets.

HAYES-DANA LIMITED

HIGHLIGHTS

YEAR ENDED JULY 31

1968

1967

NET SALES	47,900,000	36,800,000
NET INCOME	1,350,000	1,352,000
SHAREHOLDERS' EQUITY	21,900,000	21,643,000
WORKING CAPITAL	8,764,000	8,836,000
NEW INVESTMENT IN PLANT AND EQUIPMENT	1,818,000	8,524,000
DEPRECIATION	1,494,000	690,000
NET INCOME PER SHARE	.50	.50
DIVIDEND RATE PER SHARE	.44	.44
EQUITY PER SHARE	8.07	8.03

OFFICERS

G. B. MITCHELL	Chairman of the Board	W. B. DODDS	Vice Pres. — Aftermarket Sales
W. M. FAIRHURST	President	B. R. REIMER	Gen. Manager — Chassis Division
W. S. THOMPSON	Vice Pres. — Finance & Secretary	L. H. DENSMORE	Treasurer
H. E. LANGFORD	Vice Pres. — Manufacturing	MISS M. MOSS	Assistant Secretary

DIRECTORS

H. J. CARMICHAEL	Toronto, Ontario	J. R. MILLER	Toledo, Ohio
A. G. COULTER	Oshawa, Ontario	G. B. MITCHELL	Toledo, Ohio
W. M. FAIRHURST	St. Catharines, Ontario	J. H. RATCLIFFE	Toronto, Ontario
J. E. MARTIN	Toledo, Ohio	J. D. STEVENSON	Toronto, Ontario
R. C. McPHERSON	Toledo, Ohio	D. G. WILLMOT	Toronto, Ontario

1968 ANNUAL REPORT



HAYES-DANA LIMITED
THOROLD, ONTARIO

October 4, 1968

To Our Shareholders:

The 1968 fiscal year was an eventful one for Hayes-Dana.

The acquisition of The Perfect Circle Company Limited and the Victor Manufacturing and Gasket Company of Canada Limited, at the beginning of the year, coupled with the shipment of frames from our Frame Plant, which was officially opened in September, 1967, helped to increase our sales to \$47,900,000 - an increase of 30% over the \$36,800,000 last year.

Net income, after providing \$1,494,000 for depreciation, was \$1,350,000 or 50¢ per share. This compares with depreciation of \$690,000 and net income of \$1,352,000 or 50¢ per share last year.

Several significant factors adversely affected our earnings. New contract negotiations involved strikes at the plants of some of our major automotive and agricultural customers. A strike at our Thorold and St. Catharines plants caused additional production losses prior to a new three year contract agreement.

The Frame Plant, after heavy start-up costs in the early part of the year, has reached full utilization and we can now look forward to normal earnings from this new facility.

The integration of the Perfect Circle and Victor operations into one Division, essential for their full effectiveness, involved unusual costs. The economies and benefits of this move will be apparent in the coming year. The Aftermarket Group has also completed its reorganization and can now take full advantage of the wide range of Hayes-Dana products it distributes in this specialized growth market.

Effective August 1, 1968, we further streamlined our organization by creating a Chassis Division to encompass both the Drive Train and Frame operations. This Division is now autonomous with its own sales, engineering and manufacturing functions, enabling it to concentrate on the great growth potential in these product lines.

We continue to feel that one of our primary objectives is the development of the management and supervisory people needed to maintain our company's growth. Of equal importance is a program to ensure that our manufacturing facilities are continually modernized, expanded and utilized to best advantage. For these reasons, we have recently placed these vital functions directly under a senior officer of the company.

A Corporate Planning Group was established during the year, charged with the responsibility of constantly reviewing our long range objectives and determining how our total resources can best be used in achieving them. It is currently working with all Divisions to assist them in developing and attaining their own short and long term goals within this framework.

The recent easing of tight money restrictions and increase in disposable incomes lends support to our customers' forecasts of a good year in the automotive industry. Recent poor weather conditions in the Western Provinces may have some effect on forecasts for the agricultural industry.

We are very conscious of the contributions made by our employees, our customers and our shareholders to the significant progress we have made this year. With their continued support we look confidently to the future.

Respectfully submitted

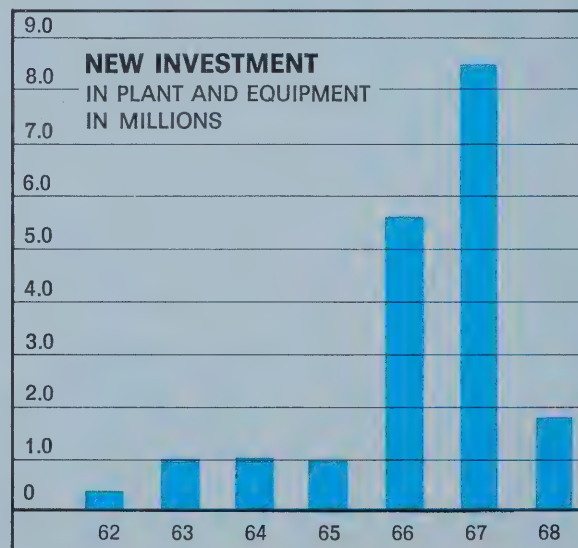
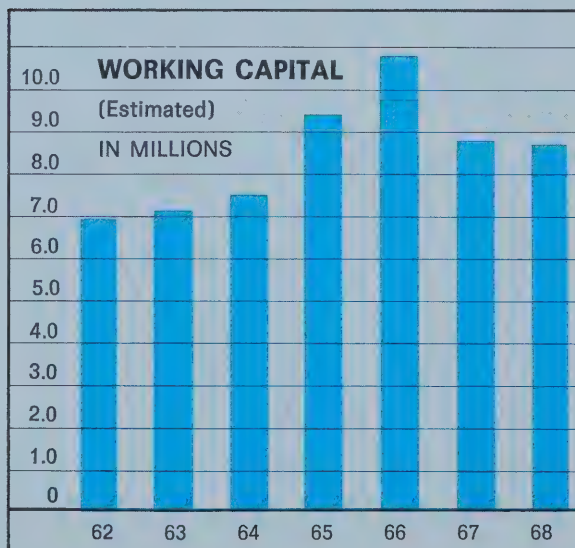
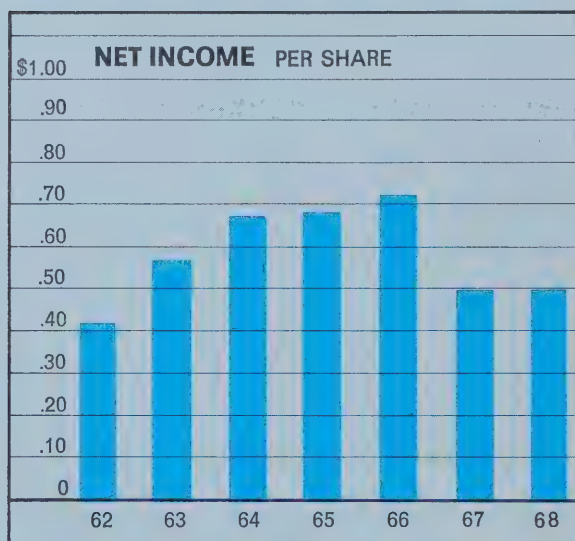
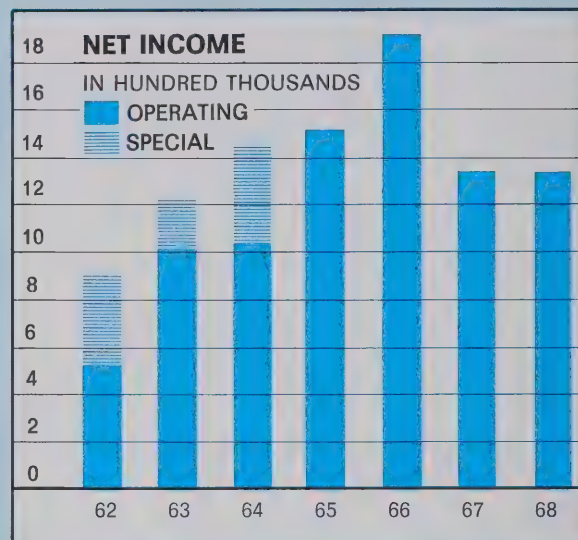
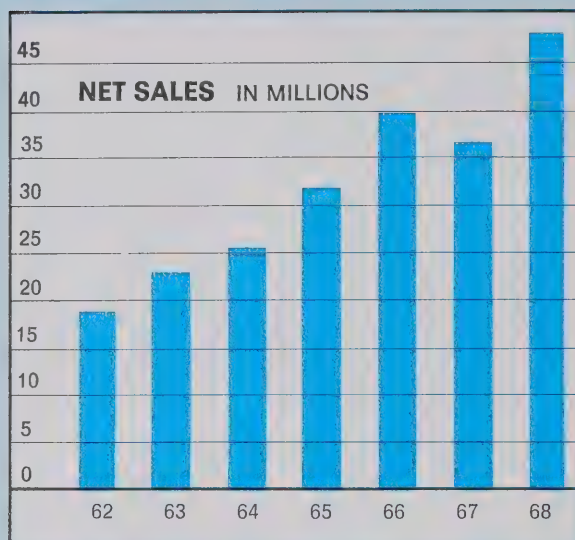
On behalf of the Board of Directors

G. B. MITCHELL
Chairman of the Board

W. M. FAIRHURST
President

HAYES-DANA LIMITED

GROWTH AT A GLANCE





FINANCIAL REVIEW

SALES

Sales in our 1968 fiscal year set a new record at \$47,900,000. This represents a 30% increase over sales of \$36,800,000 in 1967.

NET INCOME

Net Income remained at almost the same level as 1967 at \$1,350,000 compared to \$1,352,000, or 50¢ per share in each instance.

DIVIDENDS

Dividends were paid on our shares during the year at the rate of 11¢ quarterly, unchanged from 1968. Total dividend payout increased from \$757,000 to \$1,192,000.

TAXES

Taxes on income in the amount of \$1,181,000 were charged against current earnings where applicable at an average rate of 46.7%. By the application of capital cost allowances and certain other expenses deductible under current tax regulations, we are able to defer the payment of \$961,000 to future years, thus improving our cash flow.

EXPENDITURES FOR PLANT AND EQUIPMENT

Expenditures for Plant and Equipment during the year were \$1,818,000. Depreciation charged against operations amounted to \$1,494,000, or 3.1% of sales. In 1967 the comparable amount was \$690,000, 1.9% of sales. The increase was due to the heavy investment in plant and equipment for the Frame operation.

NET WORKING CAPITAL

Net Working Capital at the year end stood at \$8,764,000, a decline of \$72,000 from 1967. Our total indebtedness to the bank and on our debentures stood at \$8,300,000, compared with \$8,100,000 in 1967.

SHAREHOLDERS' EQUITY

Shareholders' Equity of \$21,900,000 amounts to \$8.07 for each of the 2,712,965 shares outstanding at the year end.

HAYES-DANA LIMITED

AND SUBSIDIARY COMPANIES

ASSETS

	July 31	
	1968	1967
CURRENT ASSETS:		
Cash	\$ 63,000	\$ 431,000
Marketable securities, at cost which approximates market	201,000	201,000
Accounts receivable, less allowance for doubtful accounts —		
Trade	3,717,000	3,392,000
Affiliated company	375,000	212,000
Income taxes recoverable	175,000	1,429,000
Inventories, at lower of cost or net realizable value	12,748,000	11,998,000
Prepaid expenses	243,000	380,000
	<u>17,522,000</u>	<u>18,043,000</u>
LAND, BUILDINGS, MACHINERY AND EQUIPMENT,		
at cost (Note 3):	27,129,000	25,959,000
Less — Accumulated depreciation	8,371,000	7,257,000
	<u>18,758,000</u>	<u>18,702,000</u>
OTHER ASSETS, at cost:		
Investments	172,000	222,000
Special refundable tax	115,000	141,000
Deferred expenses (Note 4)	675,000	365,000
	<u>962,000</u>	<u>728,000</u>
APPROVED ON BEHALF OF THE BOARD:		
W. M. FAIRHURST, Director	<u>\$37,242,000</u>	<u>\$37,473,000</u>
G. B. MITCHELL, Director		

AUDITORS' REPORT TO THE SHAREHOLDERS OF HAYES-DANA LIMITED:

We have examined the above consolidated balance sheet of Hayes-Dana Limited and subsidiary companies as at July 31, 1968 and the related consolidated statements of income, net income retained for use in the business and source and use of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

CONSOLIDATED BALANCE SHEET

LIABILITIES

	July 31	
	1968	1967
CURRENT LIABILITIES:		
Bank advances	\$ 4,286,000	\$ 3,116,000
Accounts payable and accrued liabilities —		
Trade	2,674,000	3,942,000
Affiliated companies	557,000	979,000
Income taxes payable	241,000	170,000
Current portion of long-term debt	1,000,000	1,000,000
	<u>8,758,000</u>	<u>9,207,000</u>
LONG-TERM DEBT:		
6% Secured Debenture repayable in semi-annual instalments of \$500,000	3,000,000	4,000,000
DEFERRED INCOME TAXES	<u>3,584,000</u>	<u>2,623,000</u>
	<u>15,342,000</u>	<u>15,830,000</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK without nominal or par value		
(Note 2):		
Authorized — 4,000,000 shares		
Issued — 2,712,965 shares in 1968;		
2,696,533 shares in 1967	8,979,000	8,880,000
NET INCOME RETAINED FOR USE IN THE BUSINESS	<u>12,921,000</u>	<u>12,763,000</u>
	<u>21,900,000</u>	<u>21,643,000</u>
	<u>\$37,242,000</u>	<u>\$37,473,000</u>

In our opinion these consolidated financial statements present fairly the financial position of the companies as at July 31, 1968 and the results of their operations and the source and uses of their funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, September 10, 1968

PRICE WATERHOUSE & CO.
Chartered Accountants

HAYES-DANA LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

	Year ended July 31	
	1968	1967
Sales	\$47,882,000	\$36,800,000
Dividends, interest and other income (net)	278,000	197,000
	<u>48,160,000</u>	<u>36,997,000</u>
Costs and expenses (including depreciation of \$1,494,000 in 1968 and \$690,000 in 1967):		
Cost of sales	42,512,000	31,653,000
Selling, general and administrative expenses	2,564,000	2,494,000
Interest	553,000	181,000
	<u>45,629,000</u>	<u>34,328,000</u>
	<u>2,531,000</u>	<u>2,669,000</u>
Income taxes:		
Current	220,000	577,000
Deferred	961,000	740,000
	<u>1,181,000</u>	<u>1,317,000</u>
Net income for the year	<u>\$ 1,350,000</u>	<u>\$ 1,352,000</u>

CONSOLIDATED STATEMENT OF NET INCOME RETAINED FOR USE IN THE BUSINESS

	Year ended July 31	
	1968	1967
Balance at beginning of year	\$12,763,000	\$13,992,000
Net income for the year	1,350,000	1,352,000
	<u>14,113,000</u>	<u>15,344,000</u>
Dividends paid:		
Hayes-Dana	1,192,000	757,000
Perfect Circle (including a stock dividend of \$1,700,000)	—	1,824,000
	<u>1,192,000</u>	<u>2,581,000</u>
Balance at end of year	<u>\$12,921,000</u>	<u>\$12,763,000</u>

HAYES-DANA LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

	Year ended July 31	
	1968	1967
Source of funds:		
Net income for the year	\$ 1,350,000	\$ 1,352,000
Charges not requiring a cash outlay-		
Depreciation	1,494,000	690,000
Deferred income taxes	961,000	1,565,000
Funds from operations	3,805,000	3,607,000
Received on exercise of stock options	99,000	130,000
Issue of 6% secured debenture	—	4,000,000
	3,904,000	7,737,000
Use of funds:		
Additions to plant and equipment (net)	1,550,000	8,485,000
Cash dividends	1,192,000	881,000
Increase in other assets	234,000	480,000
Reduction of long-term debt	1,000,000	—
	3,976,000	9,846,000
Decrease in working capital	\$ 72,000	\$ 2,109,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Hayes-Dana Limited and its subsidiary companies, all of which are wholly-owned.

2. CAPITAL STOCK: Changes in the capital stock account over the two years were as follows:

	Year ended July 31	1968	1967
Balance at beginning of year:	\$8,880,000	\$7,050,000	
Issue of 16,432 (1967 - 65,300) shares through exercise of stock options	99,000	130,000	
Transfer from net income retained for use in the business for Perfect Circle stock dividend	—	1,700,000	
Balance at end of year	\$8,979,000	\$8,880,000	

All outstanding stock options at the beginning of the year were exercised during the year. No further options are available under the current Employees Stock Option Plan.

3. TOOLING EXPENDITURES: Commencing August 1, 1967, expenditures for certain durable tools, dies, etc., have been capitalized. The cost of these items will be

depreciated over four years which present experience indicates is an appropriate period. In prior years such expenditures were generally charged against income as incurred. Had the former policy been continued, 1968 net income would have been reduced by approximately \$50,000.

4. DEFERRED EXPENSES: During the year, additional start-up costs in connection with the new frame plant amounting to \$479,000 were incurred and \$169,000 was amortized against income leaving a balance of \$675,000 at July 31, 1968 to be amortized in equal amounts over the next two years.

5. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:

The remuneration of directors and senior officers was \$240,000 for the year ended July 31, 1968 (1967 - \$253,000); of this amount \$94,000 (1967 - \$123,000) was received by directors.

6. PENSION PLANS: Pension plan expenses for the year amounted to \$544,000 (1967 - \$490,000). There is an unfunded past service liability estimated at \$3,764,000 which is being amortized over not more than twenty-five years.

THE HAYES-DANA GROUP

CHASSIS DIVISION FRAME PLANT, THOROLD
 DRIVE TRAIN PLANT, THOROLD

PERFECT CIRCLE - VICTOR DIVISION ST. THOMAS

FORGE PLANT ST. CATHARINES

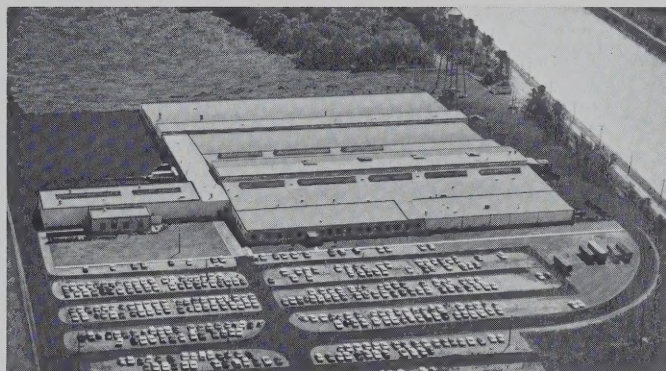
NASCO PLANT STONEY CREEK

SPECIAL SERVICES DIVISION KERR INDUSTRIES, OSHAWA
 CANADIAN TRACTION, OAKVILLE

AFTERMARKET DIVISION HAYES-DANA PARTS CO.,
 TORONTO, VANCOUVER, EDMONTON, WINNIPEG,
 MONTREAL, MONCTON

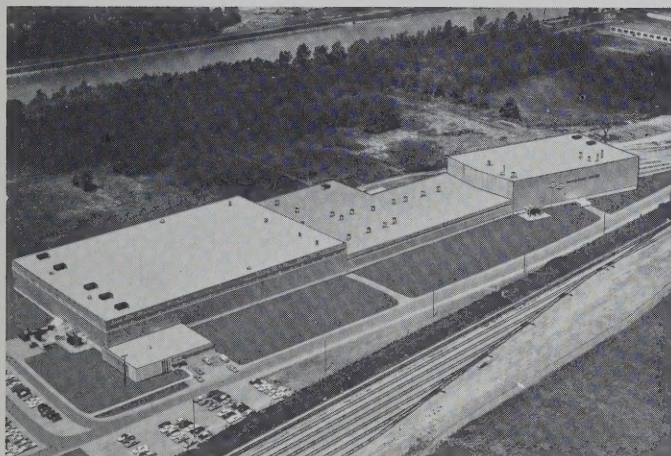
HAYES-DANA PRODUCTS AND SERVICES

- Universal joints and complete drive shaft assemblies; rear axles; clutches; industrial drive shafts; agricultural prop shafts; gear boxes and slip clutches.
- Automotive Frames.
- Forged - propeller shaft components, companion flanges, pinions, side and ring gears.
- Remanufactured generators, starters, voltage regulators, solenoid switches, starter drives, water pumps, oil pumps, fuel pumps, brake shoes, transmissions, clutches, convertors.
- Piston rings, gaskets, oil seals, packings.
- Motor vehicle preparation and installation of special custom equipment for O.E.M. manufacturers, etc.
- National distribution of proprietary products for the automotive parts replacement aftermarket.



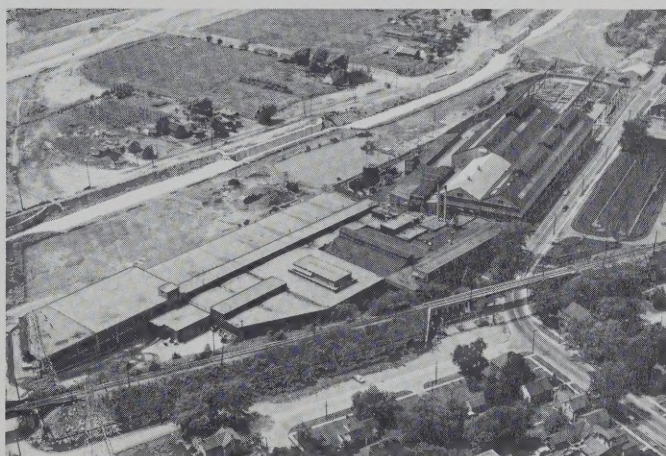
CHASSIS DIVISION

Drive Train Plant, Thorold, Ontario



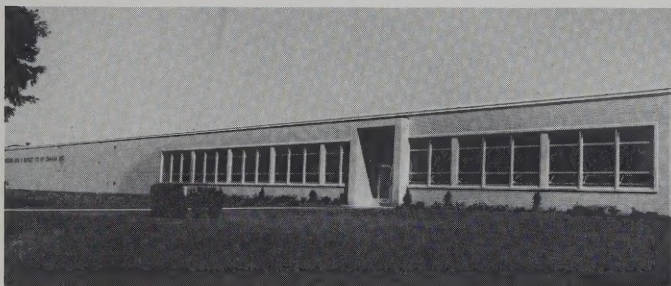
CHASSIS DIVISION

Frame Plant, Thorold, Ontario



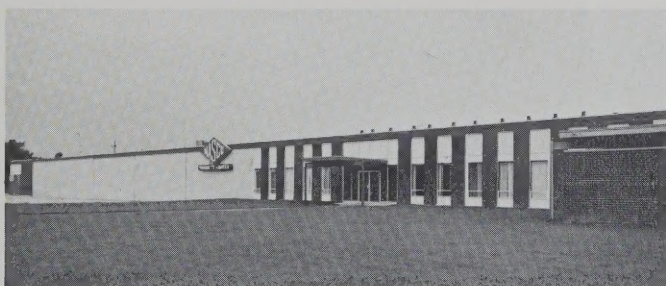
FORGE PLANT

St. Catharines, Ontario



PERFECT CIRCLE-VICTOR DIVISION

St. Thomas, Ontario



NASCO PLANT

Stoney Creek, Ontario



SPECIAL SERVICES DIVISIONS

Oshawa, Ontario



AFTERMARKET DIVISION

Hayes-Dana Parts Company Toronto, Ontario

